

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL MEMORANDUM**

HB 47 – SB 289

April 4, 2014

SUMMARY OF ORIGINAL BILL: Reduces the number of required years, from two to one, which an individual must reside in this state prior to being issued a retailers' license to sell alcohol. Reduces the number of consecutive years, from 10 to 5, which an individual must have resided in this state, at any given period of time, prior to being issued a retailers' license to sell alcohol.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue – \$300/One-Time/ABC Fund
Exceeds \$900/Recurring/ABC Fund

SUMMARY OF AMENDMENT (015597): Deletes all language after the enacting clause. Increases, from 5 percent or less to 8 percent or less, the alcoholic content by weight of beer for the purposes of taxation of beer. Updates relevant portions of Tennessee Code Annotated to reflect the definition change.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

On April 1, 2014, a fiscal memorandum was issued for this bill as amended stating a fiscal impact as follows:

Increase State Revenue –
Net Impact - \$700/General Fund/FY17-18
Net Impact - \$1,400/General Fund/FY18-19 and Subsequent Years
\$2,400/Highway Fund/FY17-18
\$4,700/Highway Fund/FY18-19 and Subsequent Years
\$700/Department of Revenue/FY17-18
\$1,500/Department of Revenue/FY18-19 and Subsequent Years

Decrease State Revenue – Net Impact –
\$3,100/ABC Fund/FY17-18
\$8,200/ABC Fund/FY18-19 and Subsequent Years

HB 47 – SB 289 (CORRECTED)

*Increase Local Revenue – Net Impact –
\$146,000/FY17-18
\$291,900/FY18-19 and Subsequent*

Based upon further review of the number of brands that would be subject to the \$100 per brand tax, it was determined this impact was in error. The fiscal impact has been corrected to reflect additional information as follows:

(CORRECTED)

Increase State Revenue –

Net Impact - \$700/General Fund/FY17-18

Net Impact - \$1,400/General Fund/FY18-19 and Subsequent Years

\$2,400/Highway Fund/FY17-18

\$4,700/Highway Fund/FY18-19 and Subsequent Years

\$700/Department of Revenue/FY17-18

\$1,500/Department of Revenue/FY18-19 and Subsequent Years

Increase State Revenue – Net Impact –

\$14,900/ABC Fund/FY17-18

\$9,800/ABC Fund/FY18-19 and Subsequent Years

Increase Local Revenue – Net Impact –

\$146,000/FY17-18

\$291,900/FY18-19 and Subsequent Years

Assumptions for the bill as amended:

- Within the language of this fiscal note, high alcohol content beer refers to beer with alcohol content between 5 percent and 8 percent.
- Per the provisions of the bill, the change in the definition of beer would begin January 1, 2017. Therefore, a half-year impact will occur in FY17-18; the first full year impact will occur in FY18-19.
- Utilizing information from the Department of Revenue, the fiscal impact has been determined using numerous and complex calculations based upon multiple tax rates, apportionment rates, elasticity rates, and growth rates. These calculations have been omitted from this fiscal note for the purpose of brevity. However, the calculations used for determining the following fiscal impact are on file with Fiscal Review Committee staff and can be provided upon request.
- Currently beer with alcohol content between five percent and seven percent is taxed at a rate of \$1.10 per gallon and beer with an alcohol content exceeding seven percent is taxed at a rate of \$1.21 per gallon. Based upon the provisions of the bill as amended, high alcohol content beer would not be subject to the tax. This tax is apportioned approximately 82.5 percent to the state and 17.5 percent to local governments. As a result, the decrease in state revenue to the General Fund is estimated to be \$89,185 in

FY17-18 and \$178,370 in FY18-19 and subsequent years. The decrease in local revenue is estimated to be \$18,918 in FY17-18 and \$37,836 in FY18-19 and subsequent years.

- According to current law, high alcohol content beer is subject to a \$0.15 per case alcoholic beverage enforcement tax. According to the provisions of this bill as amended, high alcohol content beer will not be subject to the enforcement tax. Assuming five percent of enforcement tax collections are attributable to such beer, and based upon projections by the Department of Revenue, it is assumed that there will be a decrease in state revenue to the ABC Fund of \$5,088 in FY17-18 and \$10,175 in FY18-19 and subsequent years.
- The wholesale tax on beer is \$35.60 per 31 gallon barrel. Provisions of this bill as amended would subject high alcohol content beer to this tax. The tax is apportioned \$34.51 per barrel to local governments, \$0.17 to the Department of Revenue, and \$0.92 to the wholesaler. It is estimated that there will be an increase in revenue to the Department of Revenue of \$735 in FY17-18 and \$1,470 in FY18-19 and subsequent years. The increase in local revenue is estimated to be \$149,187 in FY17-18 and \$298,373 in FY18-19 and subsequent years.
- The barrelage tax on beer is \$4.29 per 31 gallon barrel. Provisions of this bill as amended would subject high alcohol content beer to this tax. The tax is apportioned 67.1 percent or \$2.88 (67.1 x \$4.29) to the General Fund, 12.8 percent or \$0.55 (12.8 x \$4.29) to the Highway Fund and 20.1 percent or \$0.86 (20.1 x \$4.29) percent to local governments. It is estimated that imposing this tax on high alcohol content beer will result in an increase in state revenue to the General Fund of \$12,444 in FY17-18 and \$24,888 in FY18-19 and subsequent years; an increase in state revenue to the Highway Fund of \$2,374 in FY17-18 and \$4,748 in FY18-19 and subsequent years; and an increase in local revenue of \$3,728 in FY17-18 and \$7,455 in FY18-19 and subsequent years.
- Under current law, for the purpose of on-premises consumption, beer with alcohol content over five percent is subject to the liquor-by-the-drink tax. Under the provisions of this bill as amended such beer would be exempt from this tax.
- Assuming that high alcohol content beer accounts of one-half of a percent (0.5%) of total liquor-by-the-drink tax collections, it is estimated that there would be a decrease in state revenue to the General Fund of \$30,807 in FY17-18 and \$61,614 in FY18-19 and subsequent years, and a decrease in local revenue of \$32,198 in FY17-18 and \$64,395 in FY18-19 and subsequent years.
- High alcohol content beer could be sold in grocery and convenience stores. Currently, beer with alcohol content over five percent must be sold in a liquor store. This will result in an increase in the amount of high alcohol content beer sold statewide, resulting in an increase in state and local government sales tax collections.
- Based upon information provided by the Department of Revenue, state sales tax collections are estimated to increase \$108,228 in FY17-18 and \$216,455 in FY18-19 and subsequent years, and local revenues are estimated to increase \$44,165 in FY17-18 and \$88,329 in FY18-19 and subsequent years.
- Each brand of high gravity beer will be subject to a \$100 tax per year. Proceeds of the tax would go to the ABC Fund.

- It is assumed that at least 200 brands would be subject to this tax each year. As a result, there will be a recurring increase in state funds of \$20,000 ($\100×200) to the ABC Fund.
- The net increase in state revenue to the General Fund is estimated to be \$680 ($-\$89,185 + \$12,444 - \$30,807 + \$108,228$) in FY17-18.
- The net recurring increase in state revenue to the General Fund is estimated to be \$1,359 ($-\$178,370 + \$24,888 - \$61,614 + \$216,455$) in FY18-19 and subsequent years.
- The total net increase in state revenue to the ABC Fund is estimated to be \$14,912 ($-\$5,088 + \$20,000$) in FY17-18, and the total net recurring increase is estimated to be \$9,825 ($-\$10,175 + \$20,000$) in FY18-19 and subsequent years.
- The increase in state revenue to the Department of Revenue in FY17-18 is \$735 and the recurring increase is \$1,470 in FY18-19 and subsequent years.
- The increase in state revenue to the Highway Fund in FY17-18 is \$2,374 and the recurring increase is \$4,748 in FY18-19 and subsequent years.
- The net increase in local revenue is estimated to be \$145,964 ($\$149,187 - \$18,918 + \$3,728 - \$32,198 + \$44,165$) in FY17-18.
- The net recurring increase in local revenue is estimated to be \$291,926 ($\$298,373 - \$37,836 + \$7,455 - \$64,395 + \$88,329$) in FY18-19 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/cce